




Reference: AUD-7-1: 31 (1827 /01)

Date: 19 December 2001

To: Mr. Benon Sevan, Executive Director
Office of the Iraq Programme

From: Esther Stern, Director 
Audit and Management Consulting Division, OIOS

Subject: **OIOS Assignment No. AF2001/31/2: Review of OIP/UNOHCI operations in Northern Iraq**

1. In September 2001, in conjunction with an audit of the United Nations Centre for Human Settlements (Habitat) (Assignment no. AF2001/32/2), we made a limited review of UNOHCI's operations in Northern Iraq. The objective of the review was to follow up on progress to implement and improve on the coordination and monitoring function of OIP and UNOHCI in Northern Iraq. In addition, we brought to UNOHCI management's attention certain issues concerning the operations of UN agencies in Northern Iraq, which needed to be addressed by UNOHCI.

2. In our view, UNOHCI Northern Iraq has taken significant steps to improve its operations, including establishing organizational units to deal with programme planning and operational issues. While the strengthening of the office is still not complete, these steps have allowed for greater coordination and monitoring of SCR 986-funded activities in Northern Iraq, including administrative aspects of the operations.

3. The recommendations contained in this memorandum are based on a review of UNOHCI's operations in Northern Iraq and interviews with UNOHCI officials concerning progress to implement previous audit recommendations (assignment no. AF2000/48/4). The findings were discussed with the Deputy Humanitarian Coordinator (DHC) in Northern Iraq who generally agreed with our findings and recommendations. I would appreciate receiving your comments concerning these recommendations, including the planned date of implementation for each accepted recommendation, by 31 January 2001. Also please note that OIOS considers recommendations 3 and 6 as being of critical importance, and request that you focus your intention on these recommendations.

Project documentation needs to be standardized

4. Project documentation submitted by UN agencies to UNOHCI varies considerably in terms of quality, details and justification for projects. We reviewed project documentation for Phase IX of Habitat's programme in Northern Iraq and found that the approved project document consisted of a single page document and did not provide sufficient details of the individual contracts being planned. Habitat's project plans did not provide basic information including the types of projects, their location, their estimated cost or a clear identification of the beneficiaries. There is therefore a risk

that the approved plan may not be implemented, and that funds may be diverted to inappropriate projects not envisioned under the approved plan. Habitat executes several hundred individual contracts under each programme phase but has not developed a system to link these projects to the approved plan. Therefore, it is not possible for UNOHCI to adequately monitor the status of individual projects.

5. UNOHCI has taken steps to strengthen its monitoring and coordination activities in Northern Iraq, including establishing a Planning Coordination Section (PCS) and an Operations Coordination Section (OCS). However, there is still a need to develop a standard project framework to be followed by all UN agencies executing Security Council Resolution (SCR) 986-funded projects. In our view, this would be the single most important step to obtain adequate assurance that SCR 986 funds are being used appropriately. Close coordination with other UN agencies is required to develop appropriate planning tools that can be linked to their existing planning methodology without creating excessive requirements. It is also essential that the planning framework include a mechanism for monitoring individual projects to enable UNOHCI to follow up on implementation. Currently, UNOHCI is relying entirely on implementation progress reported by the UN agencies without having any reliable method to verify the information.

6. Other monitoring tools should include key performance indicators (KPI) to monitor significant activities such as start dates, project delays, implementation rate, information on beneficiaries, geographic project information, etc. For example, KPIs could include expected project commencement dates versus actual commencement dates, and, for longer projects, comparison of planned completion of a phase of the project versus the actual completion of the project phase. KPIs would not only be useful for the UN agencies and UNOHCI, but could also be used for external reporting such as the 90 and 180-day reports of the Secretary-General. This would be more informative than the largely statistics based approach currently utilized.

7. An ad hoc committee composed of officials from OCS, PCS and UNOHCI's Information Unit, reviews project documents submitted by the UN agencies. However, final recommendations essentially remain the responsibility of PCS. No formal authority had been given for this arrangement, which we understand arose from a staff shortage. Based on the comments and recommendations of the committee, the Humanitarian Coordinator (HC) or the DHC approves the project document, which is then sent to OIP. In our opinion, there is a need to strengthen PCS to enable it to perform the review and approval functions that are a critical element in the effective coordination of SCR 986 activities in Northern Iraq.

8. Furthermore, we found that in the Distribution Plan, the sectoral allocations for North Iraq are presented in the form of a table (Table I). The basis for this table is a project listing, prepared by UN agencies in consultation with the Local Authorities, which is reviewed and approved by UNOHCI. Once the distribution plan is approved, the table and project listing are approved and finalized although they may be adjusted several times during a programme phase due to fluctuations in oil revenues or due to revised priorities of the UN agencies. In order to more effectively track and monitor the distribution plan, it may be feasible for UNOHCI to assign unique numbers to the project listing supporting Table I of the distribution plan.

Recommendation nos. 1 through 4

UNOHCI should:

- (i) Assign unique numbers to the project listing supporting Table I of the Development Plan and require UN agencies to indicate this number on project documents to enable UNOHCI to verify that these projects are in accordance with the approved Plan (AF01/31/2/001);
- (ii) Develop a core team within the Planning Coordination Section to review project plans and documents submitted by UN agencies. This would enable UNOHCI Northern Iraq to more effectively discharge its function of reviewing and determining sectoral allocations of SCR 986 funds (AF01/31/2/002);
- (iii) Develop a standard format for UN agencies' project proposals. The format should include specific information required for each project planned under the project document, including the type of project, location, estimated cost and beneficiaries (AF01/31/2/003); and
- (iv) Develop key performance indicators as a tool to monitor UN agencies' implementation of approved SCR 986-funded projects (AF01/31/2/004).

UNOHCI Northern Iraq staffing situation

9. UNOHCI Northern Iraq is in the process of refocusing its operations to strengthen its coordination and monitoring activities. In order to do this, it has revised its organizational structure and established units to deal with the various aspects of the programme. An essential aspect of this restructuring has been the recruitment of qualified and experienced staff members. However, we noted that more than a year after commencing the restructuring exercise, UNOHCI has still not recruited the required staff. As of December 2001, 21 per cent of the vacancies remain unfilled. We consider this to be a serious constraint to adequately coordinating and monitoring the programme in Northern Iraq.

Recommendation no. 5

UNOHCI, in conjunction with OIP, should increase its efforts to fill vacancies in Northern Iraq by establishing a plan and a time frame for the recruitment of staff (AF01/31/2/005).

Contract management practices

10. During our recent audit of Habitat (Assignment No. AF2001/32/2), we found that construction contracts contained a clause allowing for adjustments to the contract price by up to 30 per cent of their value due to fluctuations in the local currency against the US dollar. This has exposed Habitat to a potential loss of up to 30 per cent of contract value. Clearly, if this should occur, the viability of Habitat's operations in Northern Iraq would be seriously affected and it could also have political ramifications. In our view, there is no reason for the UN to assume exchange rate risks since contractors are being paid in US dollars, the contracts are in US dollars, and the funds are paid outside of Iraq in most instances. Furthermore, the Old Iraqi Dinar (OID) is a currency not recognized by the UN; there is no official UN exchange rate and it is thinly traded. This clause also exposes contractors to the same fluctuation risks and it is uncertain that UN agencies would be able to charge contractors the full amount if they had to pay 30 per cent of the contract value.

11. We were pleased to be informed that Habitat management has accepted our recommendation to delete this clause from its construction contracts. In view of the magnitude of the risks involved, UNOHCI should determine if similar clauses exist in contracts entered into by other UN agencies. If this should be the case, UNOHCI should request them to invalidate the clauses. Should they be unwilling to do this, we believe there is a strong case for the UN not to fund such losses should they occur. This topic could be discussed in the meeting of heads of UN agencies.

Recommendation nos. 6 and 7

UNOHCI should:

- (i) Request UN agencies implementing SCR 986-funded projects in Northern Iraq to provide information regarding currency adjustment clauses contained in their contracts with local companies to determine if they expose the UN to the risk of currency exchange losses (AF01/31/2/006); and
- (ii) Advise UN agencies that the UN will not provide funding for losses resulting from currency adjustment clauses, which result in the UN assuming unreasonable risks (AF01/31/2/007).

The role of the Interagency Administrative Working Group (IAAWG)

12. In an audit of UNOHCI Northern Iraq in 2000 (Assignment No. AF00/48/1), we found that there was a need to increase the coordination of administrative policies of UN agencies implementing SCR 986-funded activities. We were concerned that while the programme is being fully funded under SCR 986 and implemented under memorandums of understanding (MOU) between OIP and the UN agencies, administrative policies differed in many respects. As a result of our recommendation, UNOHCI established the IAAWG to develop common policy guidelines.

13. The major objective of the IAAWG is to harmonise administrative policies and procedures among UN agencies with a view to ensuring efficient and compliant use of resources, and to protect the collective interests of the UN interagency humanitarian programme. In the draft terms of reference, the IAAWG was to consider issues such as recruitment and conditions of service for locally recruited staff, local procurement of goods and services including construction, end-use monitoring of assets purchased from the 13 per cent account, and to eliminate duplication through common logistical and administrative facilities. The IAAWG was to be chaired by the Assistant DHC, UNOHCI North and to meet at least once a month.

14. We reviewed the operation of the IAAWG to determine how well it had met its objectives and found that:

- As of July 2000 to November 2001 only seven meetings have been held, although it was planned to hold at least one meeting per month, or 17 meetings during this period.
- At times, the momentum of these meetings was lost and UNOHCI had to write again to the UN agencies in February 2001 to revive the IAAWG.
- While the UNOHCI Assistant DHC or the DHC has always chaired the meetings, participation from the UN agencies has not always been adequate, and lower level officers without effective decision-making authority at times attended meetings.
- Few major policy issues such as emoluments for local authorities employees, harmonisation of construction costs, harmonisation of local staff grades, etc. have been discussed, and no recommendations or decisions have been formulated concerning these issues; and
- The terms of reference of the IAAWG have remained in the draft stage despite passage of more than one-and-a-half years since the IAAWG was established.

In our view, UNOHCI needs to refocus the IAAWG to ensure that common policy initiatives developed by it are implemented.

Recommendation no. 8

UNOHCI, in conjunction with the UN agencies in Northern Iraq, should review the workings of the IAAWG, establish operational procedures (including time frames for implementing decisions made by it), and finalise the Working Group's draft terms of reference (AF/01/51/2/008).

15. I take this opportunity to thank the management and staff of UNOHCI and OIP for the assistance and cooperation provided to the auditors in connection with this assignment.

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